



McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS



TEXAS MILITARY DEPARTMENT INTERNAL AUDIT FY2014 ANNUAL REPORT



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McCONNELL & JONES LLP
CERTIFIED PUBLIC ACCOUNTANTS

October 28, 2014

The Honorable Rick Perry, Governor
Members of the Legislative Budget Board
Members of the Sunset Advisory Commission
Mr. John Keel, CPA, State Auditor

Dear Ladies and Gentlemen:

Attached is the 2014 Internal Audit Report for the Texas Military Department (TMD). This annual audit report is submitted in accordance with the Texas Internal Auditing Act requirement for state agency internal auditors to prepare and distribute an annual report (Government Code, Chapter 2102). McConnell & Jones LLP (MJ) was engaged on September 17, 2013 to provide internal audit services to the TMD in accordance with The Texas Internal Auditing Act. Pursuant to the Request for Proposals (RFP) issued March, 2013 MJ submits this internal audit annual report for fiscal year 2014 on behalf of the Texas Military Department Internal Audit Steering Committee.

Please contact Odysseus Lanier at 713.968.1603 or Duane Waddill at 512.782.7219 if you should have any questions about this audit report.

Sincerely,

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I. COMPLIANCE WITH HOUSE BILL 16: PUBLICATION OF AUDIT PLAN AND ANNUAL REPORT ON THE INTERNET

House Bill 16 amended the Texas Internal Auditing Act to require state agencies and institutions of higher education, as defined in the bill, to post agency internal audit plans and internal audit annual reports to the agency's Internet website within 30 days of approval. House Bill 16 also requires agencies to update the posting on the website to include a detailed summary of any weaknesses, deficiencies, wrongdoings, or other concerns raised by the audit plan or annual report and include a summary of the actions taken by the agency to address the issues raised.

In accordance with requirements of House Bill 16, McConnell & Jones LLP (MJ) will ensure the required internal audit plan, internal audit annual report and any other required internal audit information is provided to the Texas Military Department (TMD) for posting to their website.



II. INTERNAL AUDIT PLAN FOR FISCAL YEAR 2014

The FY2014 annual audit plan was prepared by McConnell & Jones LLP based on a comprehensive risk assessment and approved by the TMD Internal Audit Steering Committee (IASC) on January 6, 2014. The chart below reflects the FY2014 audit plan status as of August 31, 2014.

FY2014 Internal Audit Plan

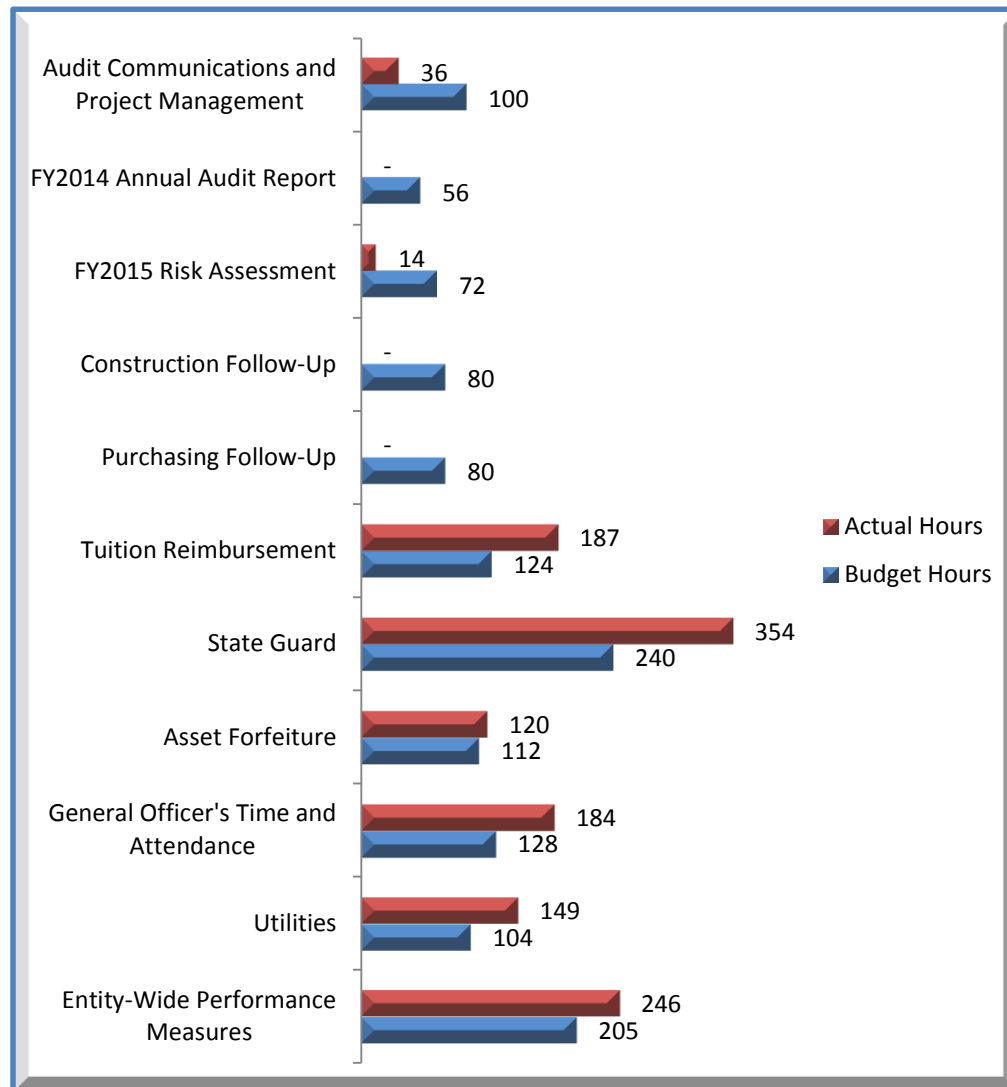
Task #	Description	Risk Rating	Estimated Hours	Audit Status
1	Entity-Wide Performance Measures, Information Flow & Automation	Compliance	205	Completed
2	Utilities	High	105	Completed
3	General Officer's Time & Attendance Reporting	Reputation	129	Completed
4	Asset Forfeiture	Compliance	113	In-Progress – fieldwork completed. Report will be issued October 2014
5	Texas State Guard	High	241	In-Progress – fieldwork completed. Report will be issued October 2014
6	Tuition Reimbursement	Request	125	In-Progress – fieldwork completed. Report will be issued October 2014
7	Purchasing Follow-Up	High	80	Postponed to include in FY2015 audit
8	Construction Follow-up	High	80	Cancelled – SAO completed the follow-up audit in FY2014 and closed the prior audit finding
9	Update Risk Assessment		73	Completed
10	Annual Audit Report		58	In-Progress to be approved and issued in October 2014
11	Audit Communications, Committee Meetings, Project Management		104	On-going - this is an Internal Audit management activity
	Total		1,313	



Deviation from 2014 Plan:

Deviations from the approved internal audit plan included postponing the purchasing follow-up until FY2015 and cancelling the construction follow-up since the State Auditor's Office (SAO) performed the follow-up in FY2014 and closed the prior audit finding. The purchasing follow-up will be incorporated with the proposed FY2015 MCA audit. These changes were discussed with and approved by the TMD Internal Audit Steering Committee.

FY2014 Internal Audit Budget vs Actual



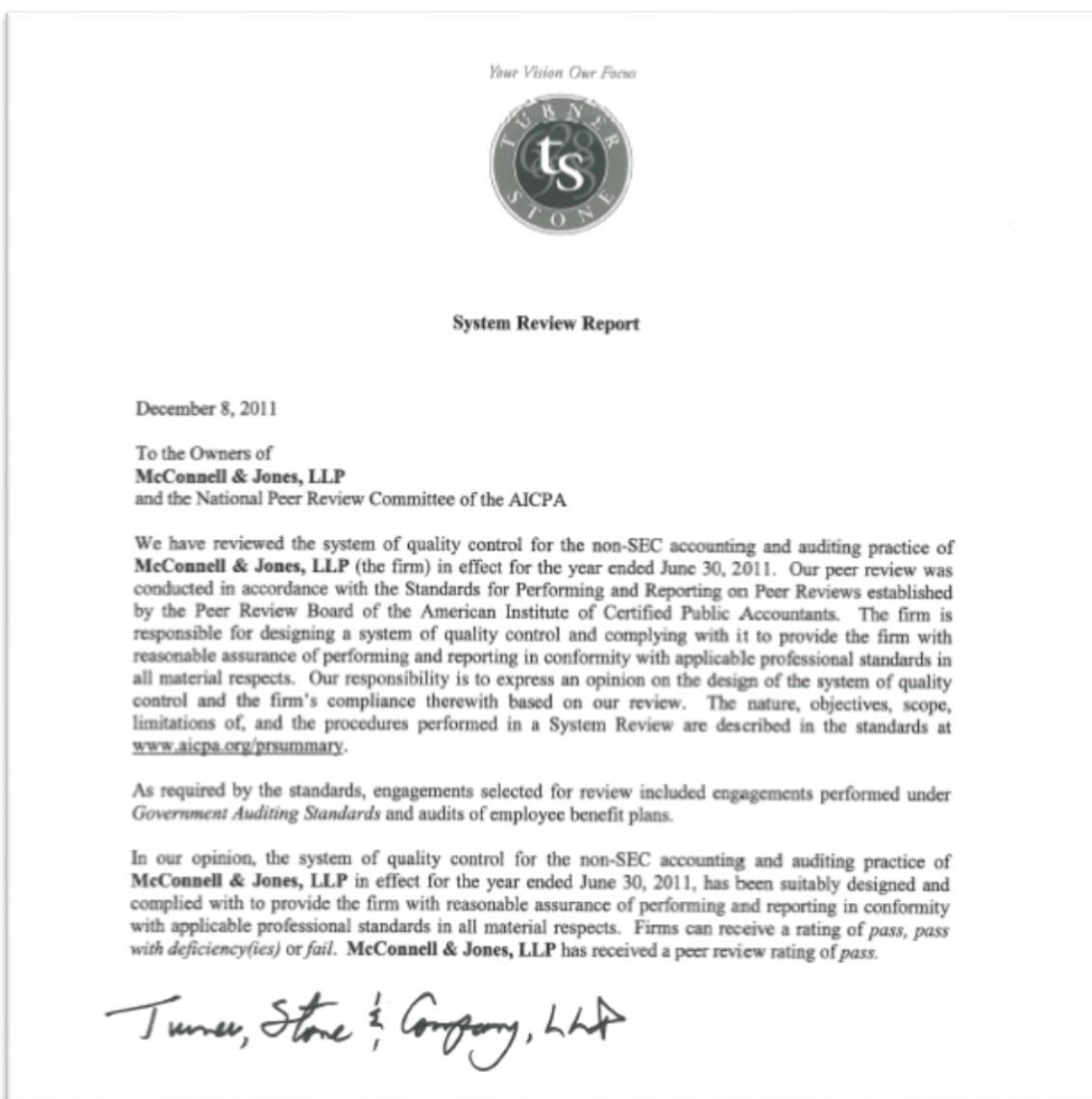
III. CONSULTING SERVICES AND NON-AUDIT SERVICES COMPLETED

Internal Audit did not provide consultative services or non-audit services to TMD management during FY2014.



IV. EXTERNAL QUALITY ASSURANCE REVIEW (PEER REVIEW)

MJ has been a member of the AICPA since 1987, and is subject to the AICPA's peer review process every three years. Our commitment to quality is underscored by the fact that we have consistently received an unqualified opinion in our external peer review of our accounting and auditing practice by the AICPA in the most recent three peer reviews. After a thorough review of our procedures and work practices, which include reviews of our nonprofit, governmental, and commercial engagements, the reviewers concluded that MJ complies with the stringent quality control standards established by the American Institute of Certified Public Accountants. Our last peer review was completed in December 2011.





V. INTERNAL AUDIT PLAN FISCAL YEAR 2015

MJ developed the FY2015 audit plan based on results of the annual risk assessment. The State Auditor's Office guidelines for the fiscal year 2014 annual internal audit report were updated to provide information related to audit work conducted on expenditure transfers or other limitations in the General Appropriations Act. We have also included consideration of contract management and information technology risks. Accordingly, these items are considered in our risk assessment and audit plan.

MJ will conduct seven audits, update the risk assessment, prepare the FY2016 annual audit plan and prepare the FY2015 annual audit report in accordance with the Texas Internal Auditing Act. These activities are estimated to require **1,524 hours**. The planned audits, timing and estimated hours are summarized in the chart below.

2015 Annual Audit Plan Activities

<i>Audit Activity #</i>	<i>Description</i>	<i>Risk Rating</i>	<i>Estimated Timing</i>	<i>Estimated Hours</i>
1	Unit Funds	Medium	October – November 2014	200
2	Human Resources	High	November 2014 – January 2015	280
3	Mental Illness Funds	Medium	February – March 2015	136
4	Interagency Transfer Vouchers * (Border Star and Border Security)	Compliance	March – May 2015	288
5	Master Cooperative Agreement (MCA) Carswell Appendix 21 – Facilities O&M	Compliance	May – July 2015	160
6	General Officer's Time & Attendance	Compliance	On-Going	112
7	Follow-Up on Open Audit Findings	Compliance	On-Going	96
8	iEMS Purchasing System Controls	Medium	TBD	80
9	Update Annual Risk Assessment & Audit Plan	Compliance	July – August 2015	65
10	Annual Audit Report	Compliance	August 2015	25
11	Audit Communications, Project Management	Compliance	On-Going	82
	Total			1,524

**State Auditor Office (SAO) Guidelines for the fiscal year 2015 internal audit report have been updated to request information related to audit work conducted on these limitations.
Proposed audits will focus on internal controls and business processes*



VI. EXTERNAL AUDIT SERVICES PROCURED IN FISCAL YEAR 2014

The following represent external audit services that were procured by the Texas Military Department or were ongoing in fiscal year 2014.

<i>Audit / Review</i>	<i>Auditor</i>
<i>Follow-Up on Prior Year A-133 Audit Finding</i>	<i>State Auditor's Office</i>

VII. REPORTING SUSPECTED FRAUD AND ABUSE


Texas Military Department has implemented measures to comply with Article IX, Section 7.10, the General Appropriations Act (81st Legislature) and Texas Government Code, Section 321.022. These measures include, but are not limited to, the following:

The Texas Military Department included a link to the State Auditor's Office (SAO) website for fraud reporting at the footer of the Texas Military Department website. In addition, information on reporting suspected fraud to the State Auditor is included in the agency's policies and procedures.

VIII. SIGNIFICANT INTERIM CHANGES

Interim changes to the annual audit plan may occur from time to time due to changes in management direction, objectives, business risks, timing of initiatives, and staff availability. In accordance with IIA Performance Standard 2020, MJ will communicate any significant changes of the audit plan to TMD's executive management and present these changes to the Internal Audit Steering Committee (IASC) for review and approval. Notification of significant changes to the Internal Audit Plan approved by the IASC will be submitted to the State Auditor's Office (SAO).

This annual internal audit report was presented to the Internal Audit Steering Committee and approved on October 22, 2014.


Major General John Nichols, Texas Adjutant General